THINK CRITICALLY
Handwrite your responses in the space below; 2 sentences each.

1. Identify six types of property insurance and the purpose of each.

2. What is the difference between collision, comprehensive, and property damage liability coverage in a vehicle insurance policy?

3. True or False? _____ Businesses can obtain comprehensive insurance coverage on buildings they own but not for those they rent.

4. A special property insurance policy developed for the unique circumstances of small businesses is _____
   a. title insurance
   b. commercial package policy
   c. business owners policy
   d. business income insurance

5. _____ insurance pays off the balance of outstanding loans in the event of death or disability of a debtor.

6. The vehicle insurance coverage that pays for repairs to the insured's vehicle resulting from damages not due to collision is _____
   a. property damage liability
   b. medical payments
   c. uninsured motorist
   d. comprehensive

7. _____ is the advance budgeting of funds to meet the estimated cost of losses.

TEAMWORK
Discuss in pairs or small groups and then write your conclusions below.

8. Before looking at the information on property risks, brainstorm with team members all of the ways business property can be damaged or destroyed. Then check your list against the perils discussed in the lesson. Discuss how each of the perils could affect business operations.

THINK CRITICALLY
Handwrite your responses in the space below; 2 sentences each.

1. Why are employers willing to contribute 30 percent or more of the cost of employee salaries and wages to pay for benefits?

2. How does an umbrella liability policy benefit a business?

3. _____ provides medical care, rehabilitation, and lost wages for injured workers as well as death benefits for the dependents of persons killed in work-related accidents.
   a. unemployment insurance
   b. Social Security
   c. workers' compensation
   d. Medicare

4. Which of the following is not one of the penalties that can be applied in the case of liability? _____
   a. a fine
   b. a jail sentence
   c. payments to those who suffer damage
   d. All of the above are penalties for liability

5. A separate policy providing a higher limit of coverage over and above any other basic liability policies an insured may have is a(n) _____
   a. umbrella policy
   b. all causes policy
   c. malpractice policy
   d. general conditions policy

6. True or False? _____ Businesses can choose not to offer Social Security benefits to their employees.

7. True or False? _____ Businesses are unable to reduce the liability risks they face so they should carry liability insurance for every risk they face.

8. _____ life insurance covers the insured for a specific period of years and does not accumulate any value beyond the death benefit.
   a. term
   b. AD&D
   c. ordinary
   d. universal

Providing Specialty Insurance CFIN 10 Case Study

Insurance traditionally spreads the risk of financial loss across a large number of individuals or companies, each of whom faces a similar type of risk. Individuals and businesses may also face financial losses that are unique. A group of investors in a new movie may lose miLlions of dollars if production problems occur. An athlete's career and earnings will be lost if he or she suffers a major injury. The cargo of a large ship, a major entertainment event that is dependent on good weather, or a fundraiser that offers a large prize for a difficult accomplishment such as a hole-in-one at a golf tournament each presents a possible but reasonably unique risk for the investors or event planners. Those unique risks are difficult to insure and have resulted in the growth of the specialty risk market.

Lloyd's (also known as Lloyd's of London) is the largest source of specialty risk insurance in the world. Surprisingly, Lloyd's is not an insurance company or even an actual company by itself. Instead it is a market where companies and wealthy individuals invest money to insure unique risks. Insurance is provided through syndicates or groups of investors who pool their money to insure specific categories of risk. Today Lloyd's has 64 syndicates which specialize in areas such as aviation, catastrophes, and professional risks.

The organization began in 1688 when merchants, ship captains, and ship owners would gather at Edward Lloyd's coffee house in London. Since there was always a risk of loss to ships and cargos, groups formed to pool their money to cover potential losses. Rich investors called names were attracted to Lloyd's to speculate on marine insurance. They would put money into a pool that insured a specific ship and its cargo. They would make money if the cargo and ship were safe but would have to pay if loss or damage occurred. Until 1994, most of the capital for Lloyd's came from individual investors. Due to huge losses suffered in the early 1990s, Lloyd's began accepting members, or corporations, as investors. Today, members provide about 90 percent of the investment capital while names provide the remaining 10 percent. Among the companies that insure through Lloyd's syndicates are 85 percent of the Fortune 500 companies, the top seven pharmaceutical companies, and the 20 largest global banks. The organization accepted insurance premiums of £13.7 billion last year.

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. Why is it difficult and more expensive to get insurance for unique risks? Since premiums are likely to be high for specialty insurance, why would companies and individuals purchase that insurance?

2. Why would names and members want to participate in one of Lloyd's syndicates? What information would you want to have about the syndicate and the risks before you would become an investor?

3. Why are the types of significant and unique losses described in the case such as a one-time entertainment event or the production of a movie difficult to insure?

4. What makes Lloyd's different in both organization and operations from traditional insurance companies? Why would a wealthy individual or corporation want to participate in a syndicate?

5. Insurance is offered to provide protection for pure risk, meaning there is no opportunity for financial gain. Do you believe the investments of the Lloyd's syndicates are pure risks or speculative risks? Justify your answer.

6. Why do you believe most of the investment capital in Lloyd's syndicates today comes from corporations rather than names?

7. What type of risks would you expect the Fortune 500 companies, global banks, and pharmaceutical firms to insure through Lloyd's that they would not be able to insure through traditional insurance policies?